

Message Text

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C O N F I D E N T I A L USNATO 0954

LIMDIS

E.O. 11652: GDS

TAGS: ETRD, MASS, NATO

SUBJ: NATO-HAWK PRODUCTION PROBLEMS; US EXPORT LICENSE DELAYS

SECSTATE FOR ASST SEC HARTMEN, ASST SEC ELLSWORTH AND DIRECTOR
VEST FROM AMBASSADOR BRUCE

REFS: A. USNATO 0924, 19 FEB 75

B. USNATO 0769, 12 FEB 75

C. USNATO 6990, 18 DEC 74

1. MISSION CALLS TO YOUR ATTENTION USNATO 0924 OF 19 FEB, WHICH REPORTS A CASE OF SERIOUS DELAY, WITH IMPORTANT POLITICAL IMPLICATIONS, IN GRANTING A US LICENSE FOR EXPORT OF URGENTLY NEEDED NATO HAWK COMPONENTS TO ITALY. IN BRIEF, SITUATION IS AS FOLLOWS: ON 15 NOV 1974 GENERAL ELECTRIC APPLIED FOR A LICENSE TO EXPORT 7000 LINE ITEMS (MAINLY ELECTRONIC COMPONENTS), WORTH ABOUT 17 MILLION DOLLARS, FOR USE BY ITALY IN THE NATO HAWK IMPROVEMENT PRODUCTION PROGRAM. OUR INFORMAL UNDERSTANDING IS THAT THE US ARMY IS DELAYING SHIPMENT OF THE ITEMS TO GIVE THE ARMY MISSILE COMMAND TIME TO EXAMINE THE SHIPMENT LIST IN SEARCH OF ITEMS URGENTLY NEEDED BY THE ARMY. WE FURTHER UNDERSTAND THAT AN INITIAL EVALUATION INDICATES THAT THE ARMY MAY HAVE A REQUIREMENT FOR ABOUT 500 LINE ITEMS. MEANWHILE, THE ITALIAN FIRM INVOLVED, C.G.E. (FIAR), WAS
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SCHEDULD TO START ASSEMBLY ON 1 FEB 1975 AND IS NOW FACING EXTENDED SCHEDULE SLIPPAGE. THE NATO-HAWK GENERAL MANAGER HAS TWICE NOTIFIED THE

NATO-HAWK BOARD OF DIRECTOS OF THE URGENCY OF THE SITUATION

(REFS A AND B), AND HAS URGED THAT THE US GIVE PRIORITY TO GRANTING THE EXPORT LICENSE WITHOUT FURTHER DELAY.

2. IN MISSION VIEW, THE US IS IN A PARTICULARLY DIFFICULT POSITION HERE BECAUSE OF RECENT HISTORY IN NATO-HAWK PROCUREMENT MATTERS. THE US, AS THE DAMAGED PARTY IN THE CASE INVOLVING VARIAN ASSOCIATES AND ISPUTED KLYSTRON AWARDS (SEE REF C AND EARLIER TELEGRAMS ON THAT SUBJECT), HAS SUCCEEDED IN PRESENTING A PERSUASIVE CASE FOR IMPROVED PROCUREMENT PRACTICES IN NATO-HAWK, WHICH, IF IMPLMENTED, WOULD FAVOR US FIRMS BIDDING FOR CONTRACT AWARDS. IN THE ABSENCE OF A STRONG DEFENSE OF OUR AS YET UNEXPLAINED DELAY IN GRANTING THE GE LICENSE, WE STAND TO LOSE MUCH OF THE GOOD WILL AND POTANTIAL LONG-TERM BENEFIT WHICH WE EARNED IN CONNECTION WITH THE VARIAN CASE. AS THINGS NOW STAND, WE WILL LIKELY FACE SOME DIFFICULT QUESTIONS AT THE NEXT NATO-HAWK BOARD OF DIRE TORS MEETING, SCHEDULED FOR 11-13 MARCH, ABOUT OUR REASONS FOR DELAYING HAWK PRODUCTION IN THIS CASE. NOT THE LEAST OF THESE IS THE EXTENT TO WHICH SIMILAR DELAYS INVOLVING US FIRMS CAN BE EXPECTED IN THE FUTURE AND, THUS, THEIR RELIABILITY AS CONTRACTORS VIS-A-VIS EUROPEAN COMPETITORS.

3. FURTHER, IT IS CLEAR THAT THIS MATTER HAS COMMERCIAL AND POLITICAL IMPLICATIONS EXTENDING WELL BEYOND THE CASE AT HAND (WHICH IS SERIOUS ENOUGH BY ITSELF). FOR EXAMPLE, THE FRENCH (WHO PLAY A MAJOR ROLE IN NATO-HAWK PROCUREMENT MATTERS) WULD NOT HESITATE TO TRY TO LINK US ACTIONS IN THIS CASE TO OTHER SUBJECTS, POSSIBLY INCLUDING THE CURRENT COMPETITION FOR REPLACEMENT OF NATO'S F-104'S. IN SHORT, MISSION BELIEVES THAT HIS MATTER WARRANTS YOUR PERSONAL ATTENTION, AND REQUESTS THAT YOU HAVE IT INVESTIGATED THOROUGHLY WITH A VEIW BOTH TH RESOLVING THE CURRENT DELAY AND TO PROVIDING MISSION, IN ADVANCE OF THE BOARD OF DIRECTORS MEETING ON 11-13 MARCH, WITH AS SOUND AN EXPLANATION AND DEFENSE OF US ACTIONS AS CAN BE MOUNTED. BRUCE

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